



WEEKLY ECONOMIC DIGEST

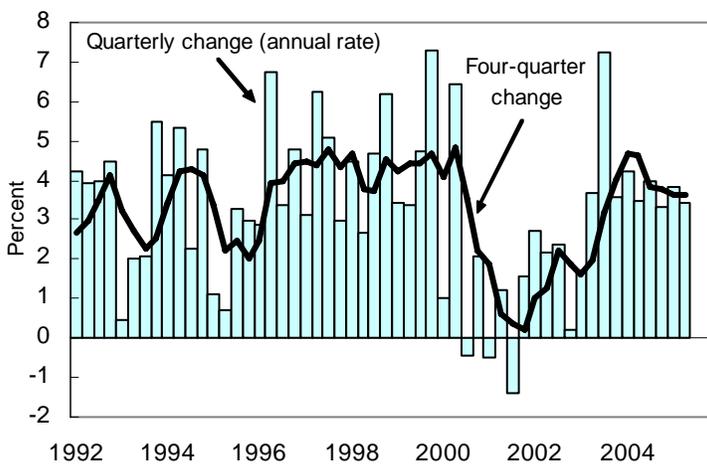


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

August 2, 2005

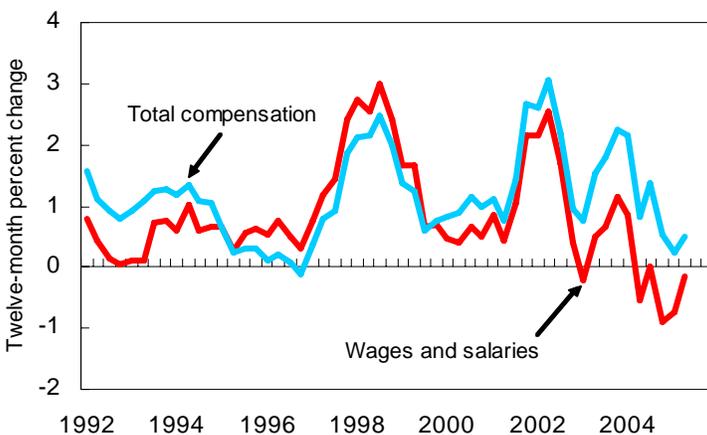
Solid but Unspectacular Growth Fails to Lift Wages

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Real Employment Cost Index
Private Industry Workers



Source: Bureau of Labor Statistics, U.S. Department of Labor and JEC staff calculations.

- **Economic growth slowed slightly in the second quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 3.4 percent last quarter to a level 3.6 percent higher than a year earlier (see chart). The second-quarter growth followed a 3.8 percent advance in the first quarter. Inventories were reduced substantially in the second quarter and growth in final sales of 5.8 percent at an annual rate substantially outpaced production.
- **Revised data depict an economic recovery with slower growth and less investment than previously thought.** The Commerce Department lowered its estimate of the economy's average annual growth rate over the 2001-2004 period to 2.8 percent from 3.1 percent. The Department also lowered its estimate of the average annual growth in business investment in equipment and software in 2003 and 2004 to 7.5 percent, down 2.4 percentage points from the original estimate. Those changes are part of the Department's annual revisions to the national income and product accounts that improve the quality of the estimates by including more complete data and updated methods.
- **Employment costs rose modestly in the second quarter.** Employer costs for combined wage and non-wage compensation of private industry workers rose by 0.6 percent in the second quarter to a level just 3.2 percent higher than a year earlier. That was the same rate of growth for compensation as in the first quarter, and the lowest quarterly rate of growth in nearly 3 years. Over the past year, benefits rose faster than wages and salaries, which grew by only 2.4 percent. After adjusting for inflation in consumer prices, total compensation was up slightly, but the wage component was 0.2 percent below its level a year earlier (see bottom chart).

The Economy at a Glance	Jul	Jun	May	Apr	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.4	3.8	3.3	4.0	4.2	2.7
Industrial Production (% growth)	n.a.	11.4	3.7	-3.5	2.1	3.6	4.5	2.7	4.2	0
Capacity Utilization (level, %)	n.a.	80.0	79.4	79.2	79.5	79.3	78.8	78.2	78.1	75.5
Civilian Unemployment Rate (level, %)*	n.a.	5.0	5.1	5.2	5.1	5.3	5.4	5.5	5.5	6.0
Housing Starts (thousands)	n.a.	2004	2004	2027	2012	2083	1973	1974	1950	1854
Real Disposable Personal Income (% growth)	n.a.	6.1	1.6	0.7	1.4	1.6 [#]	4.3 [#]	2.8	3.1 [#]	2.4
Retail Sales (% growth)	n.a.	21.7	-3.4	23.4	10.7	6.0	10.2	6.7	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0	0.4	0.2	0.2	0.7	1.2 [#]	1.2	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	0	-1.2	6.2	4.2	2.4	3.6	1.6	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	1.2	1.2	0	2.0	2.6	2.3	1.7	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	2.4	3.2	4.1	3.9	4.0
Output per Hour (% growth)*	—	—	—	—	n.a.	2.9	2.3	0.9	4.0	4.3
Financial Markets										
T-bill Rate, 3-month (level, %)	3.22	2.97	2.84	2.78	2.86	2.54	2.01	1.49	1.37	1.01
T-note Rate, 10-years (level, %)	4.18	4.00	4.14	4.34	4.16	4.30	4.17	4.30	4.27	4.01
Federal Funds Rate (level, %)	3.26	3.04	3.00	2.79	2.94	2.47	1.95	1.43	1.35	1.13
Dow Jones Industrial Avg (index level)	10545	10487	10377	10283	10382	10648	10362	10130	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **The Employment Situation: July 2005** [Release: Friday, August 5]
- **Consumer Credit: June 2005** [Release: Friday, August 5]
- **Productivity and Costs: Second Quarter 2005** [Release: Tuesday, August 9]
- **Monthly Wholesale Trade: June 2005** [Release: Tuesday, August 9]
- **Federal Open Market Committee Monetary Policy Announcement** [Tuesday, August 9]